

January 22, 1996

MEMORANDUM

SUBJECT: Release of Interim Policy on Federal Enforceability of Limitations on Potential to Emit

FROM: John S. Seitz, Director  
Office of Air Quality Planning and Standards (MD-10)  
Office of Air and Radiation

Robert I. Van Heuvelen, Director  
Office of Regulatory Enforcement (2241A)  
Office of Enforcement and Compliance Assurance

TO: Regional Office Addressees (see below):

The purpose of this memorandum is to notify you that the Agency is today releasing detailed guidance (referred to below as the "Interim Policy") clarifying the immediate impacts of two recent decisions by the U.S. Court of Appeals for the D.C. Circuit regarding EPA regulations requiring federal enforceability of limitations on a source's potential to emit ("PTE") under certain CAA programs. This cover memorandum briefly summarizes the court decisions, and briefly summarizes the immediate impacts of the decisions on current regulations. A more detailed discussion of the impacts of the two court decisions is attached. The policy will remain in place until January 1997, but may be extended if necessary to coincide with the promulgation of revised regulations.

The Court Decisions

In National Mining Association v. EPA, 59 F.3d 1351 (D.C. Cir. 1995), the court addressed hazardous air pollutant programs under section 112. The court found that EPA had not adequately explained why only federally enforceable measures should be considered as limits on a source's potential to emit. Accordingly, the court remanded the section 112 General Provisions regulation to EPA for further proceedings. EPA must either provide a better explanation as to why federal enforceability promotes the effectiveness of state controls, or remove the exclusive federal enforceability requirement. The court did not vacate the section 112 regulations, that is, the court did not declare the regulations null and void. The regulations remain in effect pending completion of new rulemaking.

In Chemical Manufacturers Ass'n v. EPA, No. 89-1514 (D.C. Cir. Sept. 15, 1995), the court, in light of National Mining, remanded the PTE definition in the PSD and NSR regulations to EPA. The court also vacated the federal enforceability requirement of the PTE definitions in the PSD and NSR regulations.

#### Summary of Immediate Impacts of the Court Decisions

EPA plans to propose rulemaking amendments in spring 1996 that would address the federal enforceability issue as it relates to section 112, title V, and Prevention of Significant Deterioration & New Source Review ("PSD/NSR") regulations. Pending this rulemaking, the immediate impacts are as follows:

Effects on Section 112. Because the court did not vacate the rule, the current part 63 regulations, requiring federal enforceability, remain in effect.

Effects on title V. Although neither court case addressed the title V regulations, industry challenges to the part 70 requirements are pending. Because the federal enforceability provision of the title V regulations are closely related to the regulations addressed in the two decided cases, EPA will ask the court to leave part 70 in place as the rulemaking amendments are being developed.

Effects on PSD/NSR. Because the court vacated the rules, the requirements in the nationwide rules for PSD and major source NSR concerning federal enforceability are not in effect. In many cases, however, individual State rules implementing these programs have been individually approved in the State Implementation Plan (SIP). The court did not vacate any requirements for federal enforceability in these individual State rules, and these requirements remain in place. As discussed in detail in the Interim Policy, the immediate practical impacts on the PSD/NSR programs are not substantial for newly constructed major sources. Greater impacts may exist for existing major sources seeking to avoid review by demonstrating a net emissions decrease.

Effects on January 25, 1995 Transition Policy. The transition policy remains in effect with one change. For sources emitting more than 50% of the major source threshold, and holding State-enforceable limits, EPA is no longer requiring that the source submit a certification to EPA.

Distribution/Further Information

The Regional Offices should send this memorandum to States within their jurisdiction. Questions concerning specific issues and cases should be directed to the appropriate Regional Office. Regional Office staff may contact Tim Smith of the Integrated Implementation Group at 919-541-4718, Adan Schwartz of the Office of General Counsel at 202-260-7632, or Julie Domike of the Office of Enforcement and Compliance Assurance at 202-564-6577. The document is also available on the technology transfer network (TTN) bulletin board, under "Clean Air Act, Title V, Policy Guidance Memos." (Readers unfamiliar with this bulletin board may obtain access by calling the TTN help line at 919-541-5384).

Attachment

Addressees:

Director, Office of Ecosystem Protection, Region I  
Director, Air and Waste Management Division, Region II  
Director, Air, Radiation, and Toxics Division, Region III  
Director, Air, Pesticides, and Toxics Management Division, Region IV  
Director, Air and Radiation Division, Region V  
Director, Multimedia Planning and Permitting Division, Region VI  
Director, Air, RCRA, and TSCA Division, Region VII  
Assistant Regional Administrator, Office of Pollution  
Prevention, State and Tribal Assistance, Region VIII                      Director, Air  
and Toxics Division, Region IX  
Director, Office of Air, Region X

Regional Counsels, Regions I-X

Director, Office of Environmental Stewardship, Region I  
Director, Division of Enforcement and Compliance Assurance, Region II  
Director, Enforcement Coordination Office, Region III  
Director, Compliance Assurance and Enforcement Division, Region VI  
Director, Enforcement Coordination Office, Region VII  
Assistant Regional Administrator, Office of Enforcement, Compliance and  
Environmental Justice, Region VIII  
Enforcement Coordinator, Office of Regional Enforcement Coordination, Region  
IX

# EPA INTERIM POLICY ON FEDERAL ENFORCEABILITY REQUIREMENT FOR LIMITATIONS ON POTENTIAL TO EMIT

January 1996

This document provides guidance clarifying the immediate impacts of recent court decisions related to federal enforceability of limitations on a source's potential to emit ("PTE"). In brief, most current regulatory requirements and policies regarding PTE, including the interim policy recognizing state-enforceable limits under section 112 and Title V in some circumstances, remain in effect while EPA conducts expedited rulemaking to address these issues in detail. However, at present, certain netting transactions involving PTE limits under new source review programs may now take place without federal enforceability. Today's guidance will be superseded upon completion of the new rulemaking.

## Background

Several important Clean Air Act programs apply to only major sources, i.e., those that "emit or have the potential to emit" amounts exceeding major source thresholds listed in the Act. The EPA has promulgated regulations defining the term "potential to emit" for most of these programs. In particular, five sets of regulations are in place implementing the major source prevention of significant deterioration (PSD) and nonattainment area new source review (NSR) permitting programs (40 CFR 51.166, 40 CFR 52.21, 40 CFR 51.165, Appendix S of 40 CFR Part 51, and 40 CFR 52.24). Regulations governing approvability of state operating permit programs under Title V of the CAA are contained in 40 CFR Part 70, and EPA has proposed regulations implementing a federal operating permits program that are to be promulgated at 40 CFR Part 71. Regulations implementing the requirements of section 112 of the Act related to major sources of hazardous air pollutants are contained in 40 CFR Part 63, subpart A.

For each of the above Clean Air Act programs, the EPA regulations provide that "controls" (i.e., both pollution control equipment and operational restrictions) that limit a source's maximum capacity to emit a pollutant may be considered in determining its potential to emit. Historically, large numbers of new or modified sources that otherwise would be subject to PSD and NSR permitting requirements have limited their PTE in order to obtain "synthetic minor" status and thereby avoid major source requirements. With the advent of operating permit programs under Title V and the MACT program under section 112, many sources that otherwise would be subject to these new requirements under the Clean Air Act Amendments of 1990 also have obtained, or plan to obtain, PTE limits to avoid coverage. For each of these programs, EPA regulations have required that PTE limits be "federally enforceable" in order to be considered in determining PTE.

These federal enforceability requirements were the subject of two recent decisions of the D.C. Circuit Court of Appeals. The first decision, National Mining Association v. EPA, 59 F.3d 1351 (D.C. Cir. July 21, 1995), dealt with the potential to emit definition under the hazardous air pollutant programs promulgated pursuant to CAA section 112. In this decision, the Court implicitly accepted EPA's argument that only "effective" state-issued controls should be

cognizable in limiting potential to emit. In addition, the court did not question the validity of current federally enforceable mechanisms in limiting PTE. However, the court found that EPA had not adequately explained why only federally enforceable measures should be considered in assessing the effectiveness of state-issued controls. Accordingly, the Court remanded the section 112 General Provisions regulation to EPA for further proceedings. Thus, EPA must either provide a better explanation as to why federal enforceability promotes the effectiveness of state controls, or remove the exclusive federal enforceability requirement. The court did not vacate the section 112 regulations, and they remain in effect pending completion of EPA rulemaking proceedings in response to the court's remand.

The second decision, Chemical Manufacturers Ass'n v. EPA, No. 89-1514 (D.C. Cir. Sept. 15, 1995), dealt with the potential to emit definition in the PSD and NSR programs. Specifically, this case challenged the June 1989 rulemaking in which the EPA reaffirmed the requirement for federal enforceability of PTE limits taken to avoid major source permitting requirements in these programs. In a briefly worded judgment, the court, in light of National Mining, remanded the PSD and NSR regulations to EPA. In addition, in contrast to its disposition of the section 112 regulations in National Mining, the court in Chemical Manufacturers vacated the federal enforceability requirement of the PTE definitions in the PSD and NSR regulations.

In a third set of cases, industry challenges to the federal enforceability requirements in Part 70 are pending before the D.C. Circuit. The Title V cases have not been briefed. However, since the federal enforceability provisions of these Title V regulations are closely related to the regulations addressed in the two decided cases, EPA plans to ask the court to remand the regulations to EPA for further rulemaking, and to leave Part 70 in place during the new rulemaking.

#### Plans for Rulemaking Amendments

EPA plans to hold discussions with stakeholders and propose rulemaking amendments by spring 1996, and to issue final rules by spring 1997, that would address the court decisions impacting regulations promulgated pursuant to section 112 and the PSD/NSR regulations. At the same time, EPA will propose a parallel approach to cognizable PTE limits for major sources subject to title V. EPA currently plans to address the following options, after discussions with stakeholders:

- (a) An approach that would recognize "effective" State-enforceable limits as an alternative to federally enforceable limits on a source's potential to emit. Under this option, a source whose maximum capacity to emit without pollution controls or operational limitations exceeds relevant major source thresholds may take a State or local limit on its potential to emit. In such circumstances, the source must be able to demonstrate that the State-enforceable limits are (1) enforceable as a practical matter, and (2) being regularly complied with by the facility.

- (b) An approach under which the EPA would continue to require federal enforceability of limits on a source's potential to emit. Under this approach, in response to specific issues raised by the court in National Mining, EPA would present further explanation regarding why the federal enforceability requirement promotes effective controls. Under this approach, EPA would propose simplifying changes to the administrative provisions of the current federal enforceability regulations.

The remainder of this guidance memorandum addresses the immediate impacts of the court decisions on each of the three programs, in light of the upcoming rulemaking.

### Effects on PSD/NSR

EPA interprets the court's decision to vacate the PSD/NSR federal enforceability requirement in the Chemical Manufacturers case as causing an immediate change in how EPA regulations should be read, although EPA expects that the effect of this change will be limited. Specifically, provisions of the definitions of "potential to emit" and related definitions requiring that physical or operational changes or limitations be "federally enforceable" to be taken into account in determining PSD/NSR applicability, the term "federally enforceable" should now be read to mean "federally enforceable **or legally and practicably enforceable by a state or local air pollution control agency**."<sup>1</sup> For the reasons discussed below, however, the practical effects of the vacatur will be limited during the period prior to completion of new EPA rulemaking on this issue. During this interim period, federal enforceability is still required to create "synthetic

---

<sup>1</sup>Both National Mining and Chemical Manufacturers directly addressed only the definition of potential to emit, and not related definitions that also employ the federal enforceability requirement, in particular, those related to netting. (See, e.g., 40 CFR § 52.21(b)(3)(vi)(b) providing that an emissions decrease is creditable only if it is "federally enforceable.") The court's concerns regarding the adequacy of EPA's rationale, however, appear to extend to these netting provisions; consequently, EPA interprets the vacatur as extending to them as well. Conversely, EPA reads the vacatur as not extending to aspects of the PTE definition other than the federal enforceability provision. Such other aspects (e.g., determining a source's "maximum capacity" to emit in the absence of controls) were not at issue in the litigation and not addressed by the court decisions. In addition, EPA interprets Chemical Manufacturers as not addressing the regulatory requirements for federal enforceability of offsets used to comply with NSR requirements. CAA § 173(a) expressly requires that any emissions reductions required as a precondition to the issuance of a nonattainment NSR permit to be "federally enforceable" before the permit may be issued. This requirement is not affected by the court decisions.

minor" new and modified sources in most circumstances pending completion of EPA's rulemaking.

First, EPA interprets the order vacating certain provisions of EPA regulations as not affecting the provisions of any current SIP, or of any permit issued under any current SIP. Thus, previously issued federally enforceable permits, such as permits issued under federally enforceable state operating permit programs under Title I ("FESOPPs") remain in effect. Likewise, EPA-approved state PSD and NSR SIP rules requiring that all pollution controls or operational restrictions limiting potential to emit be federally enforceable remain in place, even though such provisions may have been based on the now-vacated terms of EPA regulations.<sup>2</sup>

Second, a new or modified source that seeks to lawfully avoid compliance with the "major" source requirements of either PSD or nonattainment NSR by limiting its potential to emit to achieve synthetic minor status must still obtain a general or "minor" NSR preconstruction permit under section 110(a)(2)(C) of the Act and 40 C.F.R. § 51.160-164. Every SIP contains a minor NSR program that applies generally to new or modified sources of air pollutants, without regard to whether those sources are "major." Permits under such programs are, like all other SIP

---

<sup>2</sup>The situation is somewhat different in the several states lacking approved PSD programs, which are governed instead by the federal PSD program at 40 CFR § 52.21. (In most instances, these states have been delegated authority to issue PSD permits under the federal program pursuant to § 52.21(u).) Since these states do not have an EPA-approved PSD program, their SIPs presumably also lack state rules containing a blanket requirement that new or modified sources use only federally enforceable limits on PTE when seeking synthetic minor status to avoid PSD. Rather, sources in these states have been subject to the federal enforceability requirements of § 52.21. As noted above, Chemical Manufacturers vacated the requirements in § 52.21 that physical or operational changes be "federally enforceable" to be taken into account in determining the applicability of PSD to a proposed new source or modification. Accordingly, in states governed by § 52.21, a limit that is either "federally enforceable or legally and practicably enforceable by a state or local air pollution control agency" may now be used in determining PSD applicability in some circumstances. The effect of the vacatur in these states is limited, however, because as discussed below, new and modified sources in these states are still subject to the requirement to obtain federally enforceable minor source permits.

measures, federally enforceable. See CAA section 113(b)(1); 40 CFR § 52.23.<sup>3</sup> The requirement under section 110(a)(2)(C) to obtain a federally enforceable minor NSR permit was not at issue in the Chemical Manufacturers case, and is unaffected by the court's ruling.

As noted above, the court's action does not affect FESOPPs that many states have adopted as an additional mechanism for avoiding PSD/NSR or for creating an emissions reduction credit that may be tradeable to another source. Permits issued under such programs continue to be valid for purposes of limiting PTE. States are free to submit SIP revisions to remove such provisions in light of the vacatur, and to substitute mechanisms that are legally and practicably enforceable by the state for limiting potential to emit in some circumstances under the PSD/NSR program. However, we expect few states to do so pending the outcome of new EPA rulemaking on the broader federal enforceability issue.

Likewise, states conceivably might now seek to reduce the scope of SIP-approved minor NSR programs where they are presently broader than minimum federal requirements (e.g., to no longer cover changes at existing emissions units that reduce emissions to create a netting credit or tradeable emission reduction credit), and to substitute state-enforceable mechanisms. Here also, however, EPA does not expect states to seek such changes pending the outcome of EPA rulemaking. In addition, regarding the minimum scope of minor NSR programs, section 110(a)(2)(C) provides that state minor NSR programs must regulate all new or modified sources "as necessary" to insure consistency with air quality planning goals. Given the central role of new and modified synthetic minor sources in the overall PSD/NSR regulatory scheme, and the adverse environmental consequences if controls were not effective in limiting PTE, it is unlikely that states would have the legal ability to exclude from such programs transactions that are intrinsic to the avoidance of major NSR permitting requirements.

The principal immediate impact of the vacatur of the PSD/NSR federal enforceability regulations likely will occur in cases involving "netting" exercises at existing sources, where a source seeks to internally offset an emissions increase at a new or modified emissions unit by installing pollution controls or accepting operational limitations at another unit within the plant.

---

<sup>3</sup>Consider, for example, an existing source in a moderate ozone nonattainment area that plans to add a new emissions unit that would have the potential to emit 100 tons per year ("TPY") of VOC if uncontrolled, and would therefore be considered a major modification subject to major NSR requirements, including a requirement to install pollution controls representing LAER that would reduce emissions in this instance by 90%. The source may instead seek to avoid major NSR by installing cheaper controls that reduce emissions by 61% and thereby limit the emissions increase to 39 TPY -- just below the "major" modification threshold. Such a source would still need to obtain a minor NSR permit to construct the new unit, and that permit would be federally enforceable.



For the reasons discussed above, in such cases the new or modified unit would still need to obtain a federally enforceable minor NSR permit. In contrast, the vacatur ordered by the court may allow the unit that is limiting its emissions to rely in some circumstances on controls that are legally and practicably enforceable by the state.<sup>4</sup> Note, however, that under the terms of many state minor NSR programs, the unit undergoing an emissions reduction would still need to be included in the minor NSR permit. Also, if the state's SIP has a general requirement that PTE limits be federally enforceable, the unit reducing emissions would still need a federally enforceable limit. Such programs would not be affected by the court's ruling. In sum, the precise impact of the vacatur on PSD/NSR applicability in any state can be definitively established only by reviewing the provisions of a particular SIP.

#### Effects on Section 112 and Title V

The National Mining decision did not vacate the current definition of a major source under section 112 program in the General Provisions to Part 63, and neither of the court decisions addressed the definition of a major source for the title V program in 40 CFR part 70. Both of these current definitions, therefore, remain in effect. As discussed above, however, these regulations will be affected by the rulemaking EPA is conducting in response to the court decisions.

EPA today reiterates that independent from the decision in National Mining, current EPA policy already recognizes State-enforceable PTE limits under section 112 and Title V in many circumstances under a transition policy intended to provide for orderly implementation of these new programs under the Clean Air Act Amendments of 1990. This policy is set forth in a memorandum, "Options for Limiting the Potential to Emit (PTE) of a Stationary Source Under Section 112 and Title V of the Clean Air Act" (January 25, 1995). The transition policy is summarized below; as noted, EPA is now making one significant change in that policy in light of National Mining.

---

<sup>4</sup>Consider, for example, an existing source like the one addressed above in Footnote 3, that also plans to install a new unit that would have the potential to emit 100 tons per year of VOC per year if uncontrolled. In contrast to the earlier example, however, this source plans to avoid major NSR not by controlling the new unit, but instead by installing controls at another emissions unit at the plant whose baseline emissions are 100 TPY that will reduce actual emissions by 61 TPY. The overall result of this netting transaction is the same as in the earlier example: a net emissions increase of 39 TPY at the plant. The new unit would still need to obtain a minor NSR permit, and that permit would still be federally enforceable. In light of the vacatur in Chemical Manufacturers, however, the existing unit that is adding controls now may be able to limit its PTE using a state-enforceable permit.

In recognition of the absence in some states of suitable federally enforceable mechanisms to limit PTE applicable to sources that might otherwise be subject to section 112 or Title V, EPA's policy provides for the consideration of State-enforceable limits as a gap-filling measure during a transition period that extends until January 1997.<sup>5</sup> Under this policy, for the 2-year transition period, restrictions contained in State permits issued to sources that actually emit more than 50 percent, but less than 100 percent, of a relevant major source threshold are treated by EPA as acceptable limits on potential to emit, provided: (a) the permit and the restriction in particular are enforceable as a practical matter; (b) the source owner submits a written certification to EPA accepting EPA and citizen enforcement. In light of National Mining, EPA believes that the certification requirement is no longer appropriate as part of this policy. Accordingly, **EPA hereby amends the January 1995 transition policy by deleting the certification requirement.**

In addition, under the transition policy, sources with consistently low levels of actual emissions relative to major source thresholds can avoid major source requirements even absent any permit or other enforceable limit on PTE. Specifically, the policy provides that sources which maintain their emissions at levels that do not exceed 50 percent of any applicable major source threshold are not treated as major sources and do not need a permit to limit PTE, so long as they maintain adequate records to demonstrate that the 50 percent level is not exceeded.

Under the terms of EPA's transition policy, the transition period is to end in January 1997. In addition, completion of EPA's rulemaking in response to the recent court decisions, which EPA anticipates will occur by early 1997, may render the transition policy unnecessary after that time. However, in conjunction with the rulemaking, EPA will consider whether it is appropriate to extend the transition period beyond January 1997.

---

<sup>5</sup>Since PSD and nonattainment NSR are mature programs, minor NSR permits to limit PTE were available in all states well prior to enactment of the Clean Air Act Amendments of 1990. Hence, EPA's transition policy does not extend to those programs.